

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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In the Matter of:)	
)	
1993 Annual Access Tariff Filings)	CC Docket No. 93-193
)	Phase I
)	
1994 Annual Access Tariff Filings)	CC Docket No. 94-65
)	
AT&T Communications)	
Tariff F.C.C. Nos. 1 and 2)	CC Docket No. 93-193
Transmittal Nos. 5460, 5461, 5462,)	Phase II
and 5464)	
)	
Bell Atlantic Telephone Companies)	CC Docket No. <u>94-157</u> /
Tariff F.C.C. No. 1, Transmittal No. 690)	
)	
NYNEX Telephone Companies)	
Tariff F.C.C. No. 1, Transmittal No. 328)	

DIRECT CASE OF
THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

I. INTRODUCTION.

The Southern New England Telephone Company (SNET) submits this Direct Case in response to the request issued by the Common Carrier Bureau of the Federal

Communications Commission ("Commission") in its Order Designating Issues for Investigation.¹

SNET demonstrates that the mandated accounting change to implement SFAS-106² should be recognized as an exogenous cost under the Commission's price cap rules. Further, the assumptions made by SNET in calculating these costs are reasonable, the costs have been correctly calculated, and the allocations of these costs among the price cap baskets are consistent with Commission rules.

In the Commission's Investigation Order, SNET is named as a party of those local exchange carriers (LECs) who sought exogenous treatment of the costs to implement SFAS-106 in their 1993 annual access tariff filings.³

II. SNET's 1993 ANNUAL ACCESS TARIFF FILING CORRECTLY CALCULATED THE EXOGENOUS IMPACT ON PRICE CAP INDICES TO REFLECT THE IMPLEMENTATION OF SFAS-106.

Under the Commission's price cap rules, if a mandated accounting change has been ordered by the Commission to be reflected in regulatory accounting, then exogenous treatment should be granted to the extent that there would be no double-counting in the GNP-PI.⁴

¹ Order Designating Issues for Investigation, CC Docket No. 93-193, Phase I; CC Docket No. 94-65; CC Docket No. 93-193, Phase II; CC Docket No. 94-157; Released June 30, 1995; ("Investigation Order").

² The Financial Accounting Standards Board (FASB) issued SFAS-106 in December, 1990, which changes the way SNET, and other companies, must account for postretirement benefits other than pensions. See Investigation Order at para. 2.

³ Investigation Order at para. 13, fn. 28, and Appendix A.

⁴ See LEC Price Cap Order, 5 FCC Rcd 6786 (1990); LEC Price Cap Reconsideration Order, 6 FCC Rcd 2637 (1991); and AT&T Price Cap Reconsideration Order, 6 FCC Rcd 665 (1991). See also Responsible Accounting Officers (RAO) Letter 20, released May 4, 1992 (DA 92-250) by Chief, Accounting and Audits Division.

SNET's tariff filing of April 2, 1993 provided the justification for including the additional costs associated with implementing SFAS-106.⁵ SNET determined the incremental impact of SFAS-106, and particularly the unfunded obligation, or transition benefit obligation ("TBO"), as a mandated accounting change beyond the control of SNET, and as such, must be considered as an exogenous cost.⁶ SNET also determined the extent to which this accounting change is not reflected in the inflation measure of the price cap plan to avoid any potential double-counting.⁷ Rather than burdening the Commission with duplicative filings, SNET relies upon the 1992 USTA study (also known as the "Godwins study") as continuing to be valid to demonstrate the impact of SFAS-106 to inflation.⁸ SNET fully supports the conclusion of USTA that the Godwins study provides the Commission with an appropriate and conservative measure of the cost increase associated with the implementation of SFAS-106.

The intent of the exogenous cost adjustment component of the Commission's price cap formula is to recognize the impact on a carrier's costs of administrative, legislative or judicial actions beyond the control of the carrier.⁹ In determining to treat the cost of a particular FASB-mandated change as exogenous, such as SFAS-106, the Commission must further determine whether the cost of a particular accounting change is

⁵ See SNET Tariff Transmittal No. 560, dated April 2, 1993 at pp. 15 - 20, and associated workpapers.

⁶ See Investigation Order at para. 4, and fn. 7 for a definition of the TBO.

⁷ SNET relied upon the United States Telephone Association, ("USTA") "Post-Retirement Health Care Study Comparison of Telco Demographic and Economic Structures and Actuarial Basis to National Averages" (1992)(amended 1993). See Investigation Order at fn. 28.

⁸ See Direct Case Filing of USTA, August 14, 1995.

⁹ LEC Price Cap Order at para. 166.

reflected in the GNP-PI, the inflation variable in the price cap index.¹⁰ Clearly, the impact of the adoption of SFAS-106 is both beyond the control of the LECs, and not fully reflected in the GNP-PI.¹¹

SNET relies upon the 1992 USTA Godwins Study, which demonstrates what percentage of the additional costs incurred as a result of SFAS-106 is reflected in the GNP-PI, and what percentage of these additional costs are unrecovered in the price cap mechanism.¹² The 1992 Godwins Study was divided into two parts: an actuarial analysis and a macroeconomic analysis. The actuarial analysis covered all price cap LECs, including SNET. The 1992 Godwins Study finds that the increase in GNP-PI caused by SFAS-106 will provide recovery of only 0.7% of the additional costs incurred by price cap LECs.¹³ An additional finding of the 1992 Godwins Study was that SFAS-106 would have an adjustment in the wage rate, accounting for an additional 14.5% recovery of the additional costs as an indirect effect. SNET proposes that 84.8% of its SFAS-106 costs be treated as exogenous.¹⁴

¹⁰ AT&T Price Cap Reconsideration Order at para. 74, and LEC Price Cap Reconsideration Order at para. 63.

¹¹ See USTA's Godwins Study, Executive Summary, submitted as an attachment to USTA Direct Case in this proceeding, which demonstrates that price cap LECs would only be able to recover 0.7% of the additional SFAS-106 costs through the price cap inflation adjustment mechanism.

¹² See USTA Direct Case citing corroborative evidence by the National Economic Research Associates, Inc. (NERA) Study in demonstrating the need for exogenous cost recovery of SFAS-106 costs.

¹³ 1992 Godwins Study, Executive Summary.

¹⁴ Id. The net impact of SFAS-106 costs is developed as $100\% - 0.7\% - 14.5\% = 84.8\%$.

III. SNET's RESPONSES TO ORDER OF INVESTIGATION PARAS. 16-31.

(Issue A) Paras. 16-18: Correct, Reasonable and Justified Calculations of SFAS-106 Costs:

(Para. 17(1)) SNET has adopted SFAS-106 as of January 1, 1993 for regulatory reporting.

(Para. 17(2)) SNET elected price cap regulation effective July, 1991. In SNET's 1993 Annual Tariff Filing, pay-as-you-go expense for 1992 was reported as \$19.7 Million.¹⁵

(Para. 17(3)) The incremental impact of SFAS-106 reported in the 1993 Annual Tariff Filing was \$3.3 Million.¹⁶

(Para. 17(4)) SNET did not report any actual cash expenditures related to SFAS-106 since the implementation of price caps, but prior to our implementation of SFAS-106 accounting methods.

(Para. 17(5)) See Attachments A and B for the treatment of these costs in reports to the Securities and Exchange Commission and shareholders for 1993 and 1994 respectively.

¹⁵ See SNET Tariff Transmittal No. 560, dated April 2, 1993, at p. 27.

¹⁶ Ibid.

(Para. 18(1)) SNET provides two basic post-retirement benefits: postretirement health benefits including dental, and postretirement life insurance. These benefits are fully described in actuarial reports.¹⁷

(Para. 18(2)) For 1993, the pay-as-you-go expense for benefit payments was \$23,025,000. The amount contributed to trust funds in 1993 was \$28,652,218.

(Para. 18(3)) to (Para. 18(5)) SNET did not reflect SFAS-106 expenses in interstate rates prior to our election to price cap regulation.

(Issue B) Para. 19: Exogenous Claims Prior to January 1, 1993:

This issue is not applicable to SNET because SNET did not request exogenous treatment prior to January 1, 1993, the date the Commission authorized adoption of SFAS-106 accounting methods.

(Issue C) Para. 20: Correct and Reasonable Allocation and Separation of SFAS-106 Costs:

(Para. 20(1)) The amount associated with SFAS-106 on a total company basis was \$369,700,000 (before-tax basis), \$215,941,770 (after tax basis).

(Para. 20(2)) See the Attachment C for the actuarial calculations used to develop the total company SFAS-106 amounts.

¹⁷ See actuarial reports provided in response to para. 26.

(Para. 20(3)) Rather than allocating SFAS-106 to the telephone company, the telephone company records the entire amount and then allocates the non-telephone portion, netting to the telephone company balance. With the adoption of SFAS-106, and in accordance with regulatory accounting procedures, the transition benefit obligation is amortized over 18.4 years. The annual amortization of the transition obligation recorded in 1993 was:

8701.8000	Postretirement Healthcare Benefits	18,474,240	
1190.1300	Accounts Receivable - Non-regulated	1,925,760	
4310.1100	Accrued Postretirement Benefits-Management		8,700,000
4310.1200	Accrued Postretirement Benefits-Non-management		10,900,000
4310.1300	Accrued Postretirement Life Insurance		800,000

(Para. 20(4)) and (Para. 20(5)) Headcount is used to allocate the total company amounts between the telephone company and non-telephone company operations. See Worksheet 1.

(Para 20(6)) Using a telephone plan in service allocation methodology, the 1993 incremental impact of SFAS-106, \$18.5 Million, is first allocated to the interstate jurisdiction, and then applying the 84.8% percentage of SFAS-106 costs found in the original Godwins study cited above, results in an interstate SFAS-106 value of \$3.9 Million, in contrast to \$3.3 Million cited in SNET's 1993 annual access tariff filing. SNET takes a conservative approach using the Godwins analyses by relying upon the 1992 study's 84.8% factor rather than the 87.3% recovery factor cited in the 1995 Godwins study update **attached to the USTA Direct Case in this proceeding.**¹⁸ See

¹⁸ See USTA Direct Case, filed August 14, 1995, Attachment A.

Worksheet 2 for the allocation of costs to baskets employing the telephone plan in service allocation methodology.¹⁹

(Issues D and E) Para. 21: VEBA Trusts:

(Para. 21(1)) In 1991, pursuant to a decision by the State of Connecticut Department of Public Utilities Control, Docket No. 89-12-05, dated March 29, 1991, SNET established and began to fund Voluntary Employees' Beneficiary Association (VEBA) trusts, one for management and one for bargaining-unit employees.²⁰ Fund contributions are equal to the actuarially determined current service cost and interest cost of active employees' postretirement health care benefits.

(Para. 21(2)) Contributions to the VEBA trusts were \$6.7 Million in 1991, \$12.7 Million in 1992, \$51.7 Million in 1993 and \$51.1 Million in 1994.

(Para. 21(3)) In 1991, the total amount of funding was to provide for future benefits. In 1993 and 1994, the funding included a portion for current benefits, \$23.0 Million and \$26.5 Million respectively, with the remainder for prefunding of future benefits.

(Para. 21(4)) See Attachment D for the assumptions used in actuarial studies.

¹⁹ The data on Worksheet 2 was not employed in support of any previous tariff submission by SNET.

²⁰ The costs associated with VEBA trusts were not reflected in SNET's base period rates under price caps.

(Para. 21(5)) The VEBA trusts were described above. They provide retired management and retired non-management employees with postretirement health benefits and life insurance.

(Para. 21(6)) The terms of the respective trusts restrict the use of trust assets for the exclusive benefit of eligible employees, their spouses and eligible dependents, and their designated beneficiaries. The trust assets cannot revert to SNET.

(Issue F) Para. 22: Vesting of OPEB Interests:

(Para. 22) As stated in response to para. 17(5), substantially all of the telephone company employees may become eligible for OPEB benefits if they retire with a service pension. In addition, an employee's spouse and dependents may be eligible for health care benefits.²¹

(Supporting Studies and Models) Paras. 24 to 31: Actuarial assumptions and supporting data:

Although SNET capped some of its postretirement medical liability in 1989, these caps do not go into effect until 1996, and apply only to retirees who retired after the caps were put into effect.²²

²¹ See Attachment A in response to para. 17(5) of this Direct Case.

²² Caps are in effect for bargaining unit employees retiring after 1989 and management employees retiring after 1991. Caps do not affect dental or life insurance, or telephone concession. See also Attachment F.

(Para. 26) SNET's actuarial reports used to determine SFAS-106 amounts are provided in Attachment E. Recent plan relevant provisions as a result of collectively bargained agreements are found as Attachment F.

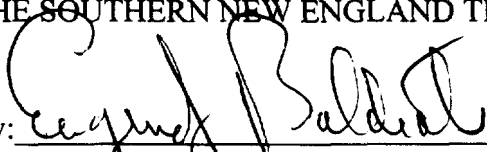
(Para. 27) SNET has not requested exogenous treatment of SFAS-112 costs.

(Para. 29) Compensation data is provided on Worksheet 3.

VI. CONCLUSION.

SFAS-106 is a mandated accounting change to be implemented for regulatory purposes by order of the Commission. SNET urges that the change in accounting necessary to implement SFAS-106 should be recognized as an exogenous cost change under the Commission's price cap rules. In support of this assertion, SNET and other price cap LECs have submitted studies that demonstrate the impact of SFAS-106 on LECs as a composite whole, and on inflation. SNET has met the burden of demonstrating that this is an appropriate exogenous change and that no double-counting would result from exogenous treatment. Therefore, SNET requests a favorable finding by the Commission that exogenous treatment is appropriate for costs attributable to SFAS-106 within price cap guidelines.

Respectfully submitted,
THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

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August 14, 1995

ATTACHMENT A

1 PAGE

THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

1993 FORM 10-K

(See Response to Para. 17(5))

POSTRETIREMENT HEALTH CARE: The Telephone Company participates in the health care benefit plans for retired employees provided by the Corporation. Substantially all of the Telephone Company's employees may become eligible for these benefits if they retire with a service pension. In addition, an employee's spouse and eligible dependents may become eligible for health care benefits. Effective July 1, 1996, all bargaining-unit employees who retire after December 31, 1989 and all management employees who retire after December 31, 1991 may have to share with the Corporation the premium costs of postretirement health care benefits if these costs exceed certain limits.

Prior to January 1, 1993, these benefits were recognized as an expense only when paid (referred to as the "pay-as-you-go" method). In 1991, in accordance with a DPUC decision in a rate proceeding, the Telephone Company began to fund the postretirement health care benefits. These costs have been contributed to Voluntary Employees' Beneficiary Association ("VEBA") trusts. The Corporation's funding policy with regard to health care costs has been to contribute an amount equal to the service and interest cost of active employees, subject to tax deductible limits, in order to contain the growth of the unfunded postretirement health care liability. Based on the DPUC's July 7, 1993 general rate award decision, the Corporation contributed additional amounts to the VEBAs in the fourth quarter of 1993. The additional amounts began to fund the accumulated liability. In 1992 and 1991, the pay-as-you-go expense combined with the VEBA contributions amounted to \$32.4 million and \$25.2 million, respectively.

Effective January 1, 1993, the Telephone Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires that employers accrue, during the years an employee renders service, the expected cost, based on actuarial valuations, of health care and other non-pension benefits provided to retirees and their eligible dependents. With the adoption of SFAS No. 106, the Telephone Company elected to defer, in accordance with an FCC accounting order and final decision issued by the DPUC on July 7, 1993, recognition of the accumulated postretirement benefit obligation in excess of the fair value of plan assets ("transition obligation") and amortize it over the average remaining service period of 18.4 years. The Telephone Company's portion of the postretirement benefit cost for 1993, including the amortization of the transition obligation, was approximately \$45 million.

~~**POSTEMPLOYMENT BENEFITS:** Effective January 1, 1993, the Telephone Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." This statement requires employers to accrue benefits provided to former or inactive employees after employment but before retirement. These benefits include workers' compensation, disability benefits and health care continuation coverage for a limited period of time after employment. The standard generally requires that these benefits be accrued as earned when the right to the benefits accumulate or vest. The cumulative effect of this accounting change reduced 1993 net income reported in the statement of income by \$6.5 million. Health care continuation costs, which do not vest, continue to be paid from company funds and are expensed when paid.~~

ATTACHMENT B

2 PAGES

THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

1994 FORM 10-K

(See Response to Para. 17(5))

NOTE 2: EMPLOYEE BENEFITS

~~**Separation Offer** As part of the bargaining-unit contract negotiated in August 1992, employees electing to retire or terminate their employment between December 15, 1992 and February 16, 1993 were offered an early retirement incentive offer, Special Pension Option ("SPO"). Approximately 525 employees accepted the early retirement offer. Most employees who elected to retire or terminate left the Telephone Company by March 19, 1993, and the remainder left by September 17, 1993. The Telephone Company recorded a before-tax \$6.0 million pension gain in 1993 as a result of the SPO.~~

~~**Pension Plans** The Telephone Company participates in two non-contributory, defined benefit pension plans of the Corporation: one for management employees and one for bargaining-unit employees. Benefits for management employees are based on an adjusted career average pay plan. Benefits for bargaining-unit employees are based on years of service and pay during 1987 to 1991 as well as a cash balance component.~~

~~Funding of the plans is achieved through irrevocable contributions to a trust fund. Plan assets consist primarily of listed stocks, corporate and governmental debt and real estate. The Corporation's policy is to fund the pension cost for these plans in conformity with the Employee Retirement Income Security Act of 1974 using the aggregate cost method. For purposes of determining contributions, the assumed investment earnings rate on plan assets was 9.5% in 1994 and declines to 7.5% by 1998.~~

~~The Telephone Company's portion of the Corporation's pension cost (income) computed using the projected unit credit actuarial method was approximately \$12.4 million, \$(7.7) million and \$(2.9) million for 1994, 1993 and 1992, respectively. The increase in pension cost for 1994 was due primarily to the net effect of a lower discount rate, the absence of a \$6.0 million net settlement gain in 1993 and a 1994 curtailment loss of approximately \$13 million for employee separations. The curtailment loss was charged against the restructuring program [see Note 4]. Pension income increased in 1993 compared to 1992 due primarily to the net effect of a settlement gain and charges for special termination benefits associated with the 1993 SPO that resulted in a net gain of \$6.0 million.~~

~~When it is economically feasible to do so, the Corporation amends periodically the benefit formulas under its pension plans. Accordingly, pension cost has been determined in such a manner as to anticipate that modifications to the pension plans would continue in the future.~~

~~**Postretirement Health Care Benefits** The Telephone Company participates in the health care and life insurance benefit plans for retired employees provided by the Corporation. Substantially all of the Telephone Company's employees may become eligible for these benefits if they retire with a service pension. In addition, an employee's spouse and dependents may be eligible for health care benefits. Effective July 1, 1996, all bargaining-unit employees who retire after December 31, 1989 and all management employees who retire after December 31, 1991 may have to share with the Corporation the premium costs of postretirement health care benefits if these costs exceed certain limits.~~

~~Prior to January 1, 1993, these benefits were recognized as an expense only when paid (referred to as the "pay-as-you-go" method). Effective January 1, 1993, the Telephone Company adopted SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires that employers accrue, during the years an employee renders service, the expected cost, based on actuarial valuations, of health care and other non-pension benefits provided to retirees and their~~

eligible dependents. With the adoption of SFAS No. 106, the Telephone Company elected to defer, in accordance with an FCC accounting order and final decision issued by the DPUC on July 7, 1993, recognition of the accumulated postretirement benefit obligation in excess of the fair value of plan assets ("transition obligation") and amortize it over the average remaining service period of 18.4 years. The Telephone Company's portion of the postretirement benefit cost for 1994 and 1993, including the amortization of the transition obligation, was approximately \$45 million.

In 1991, in accordance with a DPUC decision in a rate proceeding for the Telephone Company, the Corporation began to fund the postretirement health care benefits. Based on the DPUC's July 7, 1993 general rate award decision, the Corporation continues to contribute additional amounts to Voluntary Employee Beneficiary Association ("VEBA") trusts. In 1992, the pay-as-you-go expense combined with the VEBA contributions amounted to \$32.4 million.

~~Postemployment Benefits~~ Effective January 1, 1993, the Telephone Company adopted SFAS No. 112 "Employers' Accounting for Postemployment Benefits." This statement requires employers to accrue benefits provided to former or inactive employees after employment but before retirement. These benefits include workers' compensation, disability benefits and health care continuation coverage for a limited period of time after employment. The standard requires that these benefits be accrued as earned where the right to the benefits accumulates or vests. The cumulative effect of this accounting change reduced 1993 net income by \$6.5 million. Health care continuation costs, which do not vest, continue to be paid from company funds and are expensed when paid.

NOTE 3: INCOME TAXES

Effective January 1, 1993, the Telephone Company adopted SFAS No. 109 "Accounting for Income Taxes." In accordance with SFAS No. 109 and SFAS No. 71, the Telephone Company has a regulatory asset of \$62.2 million (recorded in deferred charges and other assets) related to the cumulative amount of income taxes on temporary differences previously flowed through to ratepayers. These amounts relate principally to capitalization of certain general overhead, taxes and payroll-related construction costs for financial statement purposes. In addition, the Telephone Company has a regulatory liability of \$84.2 million (recorded in other liabilities and deferred credits) relating to future tax benefits to be flowed back to ratepayers associated with unamortized investment tax credits and decreases in both federal and state historical statutory tax rates. Both the regulatory asset and liability are recognized over the regulatory lives of the related taxable bases concurrent with the realization in rates, except for the liability related to intrastate excess state tax rates, which in accordance with the DPUC final decision issued in July 1993, will be returned to ratepayers over three years. This method is a more accelerated turnaround than the normal recognition period.

ATTACHMENT C

3 PAGES

THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

ACTUARIAL CALCULATIONS

(See Response to Para. 20(2))

SOUTHERN NEW ENGLAND TELECOMMUNICATIONS
POSTRETIREMENT HEALTH - MANAGEMENT
EXPENSE
(\$Millions)

	1992	1993	1994	1995
A. Expected Postretirement Benefit Obligation (EPBO)				
1. Active EPBO	38.0	40.7	43.5	46.3
2. Retired EPBO	122.5	121.4	119.8	117.7
3. Total EPBO as of 1/1	160.5	162.1	163.3	164.0
B. Accumulated Postretirement Benefit Obligation (APBO)				
1. Active APBO	28.9	32.1	35.4	39.0
2. Retired APBO	122.5	121.4	119.8	117.7
3. Total APBO as of 1/1	151.4	153.5	155.2	156.7
C. Net Periodic Benefit Cost				
1. Service Cost with interest	1.2	1.2	1.3	1.3
2. Interest Cost	11.0	11.1	11.3	11.3
3. Amortization of Transition Liability	N/A	8.7	8.7	8.7
4. Subtotal Benefit Costs	12.2	21.0	21.3	21.3
5. Expected Return on Assets	0.5	0.8	1.1	1.5
6. Total Net Periodic Benefit Cost	N/A	20.2	20.2	19.8
D. Determination of Contribution as of 1/1				
1. VEBA Contributions	5.4	5.7	5.9	6.3
E. Retiree Benefits Paid				
1. Retirees prior to 1991	7.9	8.2	8.3	8.5
2. 1991 & Future Retirees	2.2	2.4	2.8	3.2
3. Total	10.1	10.6	11.1	11.7
F. VEBA as of 1/1	2.7	6.4	10.5	14.8

Assumptions:

No Gains or Losses.

No Plan Amendments.

Attribution Period is from the date of hire to earliest retirement eligibility.

SOUTHERN NEW ENGLAND TELECOMMUNICATIONS
POSTRETIREMENT HEALTH -NON-MANAGEMENT
EXPENSE
(\$Millions)

	1992	1993	1994	1995
A. Expected Postretirement Benefit Obligation (EPBO)				
1. Active EPBO	71.7	77.0	82.3	87.5
2. Retired EPBO	156.1	153.6	150.4	146.7
3. Total EPBO as of 1/1	227.8	230.6	232.7	234.2
B. Accumulated Postretirement Benefit Obligation (APBO)				
1. Active APBO	50.5	64.3	71.2	78.1
2. Retired APBO	156.1	153.6	150.4	146.7
3. Total APBO as of 1/1	206.6	217.9	221.6	224.8
C. Net Periodic Benefit Cost				
1. Service Cost with interest	2.4	2.5	2.6	2.7
2. Interest Cost	15.0	15.8	16.0	16.2
3. Amortization of Transition Liability	N/A	10.9	10.9	10.9
4. Subtotal Benefit Costs	17.4	29.2	29.5	29.8
5. Expected Return on Assets	0.8	1.4	2.0	2.5
6. Total Net Periodic Benefit Cost	N/A	27.8	27.5	27.3
D. Determination of Contribution as of 1/1				
1. VEBA Contributions	7.3	8.6	8.7	8.3
E. Retiree Benefits Paid				
1. Retirees prior to 1991	11.7	11.9	12.2	12.4
2. 1991 & Future Retirees	2.1	2.7	3.2	3.9
3. Total	13.8	14.6	15.4	16.3
F. VEBA as of 1/1	4.0	10.0	17.3	24.7

Assumptions:

Return on Assets: 8.00%

Discount for Liabilities: 7.50%

No Gains or Losses except for anticipated loss for 1992-1993 nonmanagement open window

No Plan Amendments.

Attribution Period is from the date of hire to earliest retirement eligibility.

SOUTHERN NEW ENGLAND TELECOMMUNICATIONS
RETIRED GROUP LIFE EXPENSE - COMBINED
WITH CONTRIBUTIONS
(\$Millions)

	1992	1993	1994	1995
A. Expected Postretirement Benefit Obligation (EPBO)				
1. Active EPBO	47.7	51.3	54.8	58.5
2. Retired EPBO	41.4	40.9	40.6	40.2
3. Total EPBO as of 1/1	89.1	92.2	95.4	98.7
B. Accumulated Postretirement Benefit Obligation (APBO)				
1. Active APBO	25.8	29.1	32.5	36.2
2. Retired APBO	41.4	40.9	40.6	40.2
3. Total APBO as of 1/1	67.2	70.0	73.1	76.4
C. Net Periodic Benefit Cost				
1. Service Cost	1.4	1.6	1.7	1.8
2. Interest Cost	4.9	5.1	5.3	5.6
3. Amortization of Transition Liability	N/A	0.8	0.8	0.8
4. Subtotal Benefit Costs	6.1	7.5	7.8	8.2
5. Expected Return on Assets	4.2	4.4	4.6	4.7
6. Total Net Periodic Benefit Cost	N/A	3.1	3.2	3.5
D. Contributions	1.3	1.3	1.3	1.3
E. Retiree Benefits Paid				
1. Current Retirees	3.5	3.3	3.3	3.2
2. Future Retirees	0.0	0.3	0.4	0.6
3. Total	3.5	3.6	3.7	3.8
F. RFA as of 1/1	53.2	55.3	57.4	59.6

Assumptions:

Return on Assets: 8.00%
Discount for Liabilities: 7.50%
Salary Increases: 4.50% Plus Progression & Promotion
No Gains or Losses.
No Plan Amendments.
Attribution Period is from the date of hire to expected retirement.
Contributions determined on an 8% discount for liabilities assumption.
Transition Obligation is amortized over 18.4 years.

WORKSHEET 1

2 PAGES

THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

**ALLOCATION BETWEEN TELEPHONE COMPANY AND
NON-TELEPHONE COMPANY OPERATIONS**

(See Response to Paras. 20(4) and 20(5))

1993

Date

Calculation of Non-Reg Portion of Transition Obligation

22-804

22-804

		1	2	3	4
		4310.11	4310.12	4310.13	
		Health	Health	Life	Total
		Management	Non-Mgmt	Insurance	
1					
2	* Amortization Period in Years	16.9	19.1	18.4	
3					
4	Total APBO as of 11/1/93	1535000000	279000000	700000000	2414000000
5	Less: VEBA as of 11/1/93	640000000	100000000	553000000	1293000000
6	Transition Obligation	895000000	179000000	147000000	1221000000
7	Allocation:				
8	Non-Reg Portion (9.44%) ¹	13886240	19625760	1387680	34899680
9	Regulated	133213760	159374240	13312320	305901320
10	Total TLO	1471000000	179000000	147000000	1797000000
11					
12	Monthly Non-Reg Amount				
13	per Teleco Amortization	68440	85747	6293	
14	Annualized	821280	1028964	75516	
15	Amortization Period	13879632	19653212	1389494	34922338
16					
17	* Difference (18-15)				(32658)
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31	* To be adjust for in the last				
32	year of amortization for each				
33	Plan.				
34					
35					
36					
37					
38					
39					
40					

SUMMARY EMPLOYEE REPORT
END-OF-MONTH HEADCOUNT/EQUIVALENT
DECEMBER AS OF 12/26/92

DEPARTMENT	TOTAL HEADCOUNT EQUIVALENT		JOB BANK HEADCOUNT EQUIVALENT		NON-JOB BANK HEADCOUNT EQUIVALENT	
TOTAL EMPLOYEES	11,216	11,139.0	76	72.9	11,140	11,066.1 ^(b)
TOTAL TELCO (REGULATED)	10,159	10,090.5	72	69.1	10,087	10,021.4
NETWORK SERVICES	8,065	8,024.5	22	20.4	8,063	8,004.1
OPERATIONS	5,635	5,618.4	2	2.0	5,633	5,616.4
NETWORK	501	498.6	0	0.0	501	498.6
MARKETING & SALES	1,949	1,907.5	20	18.4	1,929	1,869.1
MARKET PLANS	201	200.3	1	0.5	200	199.8
CONSUMER SERVICES	913	874.8	19	17.9	894	856.9
BUSINESS SERVICES	732	729.8	0	0.0	732	729.8
CARRIER SERVICES	103	102.6	0	0.0	103	102.6
INFO SYSTEMS & TECHNOLOGY	696	697.6	0	0.0	696	697.6
COMPTROLLERS	397	396.4	3	3.0	394	393.4
HUMAN RESOURCES	163	160.1	12	11.1	151	149.0
EXTERNAL AFFAIRS	70	70.0	0	0.0	70	70.0
TREASURER	72	69.5	0	0.0	72	69.5
GENERAL COUNSEL	23	21.8	0	0.0	23	21.8
SNET PUBLISHING	651	650.6	35	34.6	616	616.0
TOTAL NONREGULATED	1,057	1,048.5	4	3.8	1,053	1,044.7 ^(a)
HOLDING COMPANY	72	71.5	0	0.0	72	71.5
SNET SERVICES GROUP	24	24.0	0	0.0	24	24.0
OTHER SUBSIDIARIES	961	953.0	4	3.8	957	949.2
SNET SYSTEMS	691	685.8	2	2.0	689	683.8
SNET CELLULAR	128	126.7	1	1.0	127	125.7
SNET MOBILECOM	65	64.5	0	0.0	65	64.5
SNET CREDIT	21	20.5	0	0.0	21	20.5
SNET REAL ESTATE	5	5.0	0	0.0	5	5.0
SNET PAGING	41	40.5	1	0.8	40	39.7
CONSUMER SERVICES	5	5.0	0	0.0	5	5.0
INSIDE WIRE	1	1.0	0	0.0	1	1.0
SNET DIVERSIFIED GRP-PLNG	4	4.0	0	0.0	4	4.0
SNET ADVANTAGE LOCATOR	0	0.0	0	0.0	0	0.0

1/13/93

$$\textcircled{a} \div \textcircled{b} = \% \text{ Nonregulated Employees} = \underline{\underline{9.44\%}}$$

WORKSHEET 2

1 PAGE

THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

ALLOCATION TO BASKETS

(See Response to Para. 20(6))

INTERSTATE RATIO

	<u>TOTAL \$</u>	<u>RATIOS</u>
1993 TOTAL COMPANY TPIS:	3,915,546	
1993 TOT. INTERSTATE TPIS:	982,177	
1993 INTERSTATE RATIO for TPIS:		<u>0.25084</u>

ACCESS ELEMEMENT RATIOS

	<u>TOTAL \$</u>	<u>RATIOS</u>
1993 COMMON LINE:	433,705	<u>0.441575</u>
1993 SWITCHED:	203,582	<u>0.207256</u>
1993 TRANSPORT:	211,865	<u>0.21571</u>
1993 INFORMATION:	1,480	<u>0.001507</u>
1993 SPECIAL ACCESS:	130,524	<u>0.132893</u>